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EDITORIAL NOTE

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CHANGES IN THE RETAIL TRADE OF GROCERIES.

FROM SEPTEMBER 1940 TO DECEMBER 1941.

IN BULLETIN Vol. 3, No. 10, we discussed changes in the sales of groceries from the beginning of the war to February 1941. The samples on which our analysis was based were drawn from shops in various parts of the country, catering for over two million of working-class people; they represented the turnover of these shops for one week in every month. We have been kindly supplied with further data and can now present an analysis up to the end of 1941.

(1) *The Number of Customers*

The number of customers per week of the shops which supplied the samples was obtained by dividing the total quantity of sugar sold per week by the approximate quantity of sugar consumed per head per week. When the sugar ration was 8 oz. we assumed every customer to have taken his full ration, small deficiencies in the consumption of individual customers being compensated for by the

larger rations allowed on special ration cards (e.g. seamen's and soldiers' on leave). When there was an additional distribution of sugar for jam making, and also when the sugar ration was increased to 12 oz. per head per week, not all customers seem to have purchased their full allowance.¹ To ascertain the approximate number of customers for these weeks the quantities purchased of other rationed foods had, therefore, also to be considered. It then appeared that the average consumption of sugar was slightly more than 11 oz.

In dealing with our first collection of samples a difficulty arose from the fact that, in peace time, the shops from which they were drawn used to offer at especially attractive prices imported bacon, butter, cheese, and eggs, so that for these foods the number of customers was considerably higher than for all other items, varying probably from between two and a half million to three million per week, during the last twelve months before the war. In calculating the average pre-war consumption of groceries per person per week some corrections could have been made to allow for this fact, but in the absence of sufficient information regarding changes in the supply of unrationed foods since the war no satisfactory adjustments were possible for the data of war-time consumption. Consequently, we used in our first article the uncorrected data of average consumption, qualifying them where it seemed necessary.

For this second analysis we are in a more fortunate position. By September 1940, butter, margarine, cooking fat, bacon, tea, and sugar were rationed. Moreover, by that date, many unrationed foods that were scarce were rationed unofficially, but with official sanction, and sold only to registered customers. Casual custom had become insignificant. Because of this we have chosen September 1940 as the starting point for this present analysis.

We have again assumed the number of sugar rations sold per week to represent the number of registered customers. This seemed better for the purpose of our analysis than using the number of actual registrations, obtained for the whole body of customers every six months, at the beginning of a new registration period, as these figures tell nothing about the fluctuations from month to month, and also take no account of purchases made on the various temporary ration cards.

The consumption data for butter and cheese obtained by our method seem to prove its usefulness. For butter, we arrived at a weekly consumption per customer of approximately 2 oz. in all

¹ Sugar is, in part, a 'complementary' food, the consumption of which depends on the supply of other foods with which it is eaten, especially milk and fruit. As these ingredients for puddings, cake, and preserves are in short supply, the demand for sugar of large families with children and, possibly, also of families consisting of adults only—some of whom would consume considerable quantities with strong, milky tea—seems to approach a saturation point somewhat below 11 oz. per head per week, for the type of families served by the shops of our sample.

sample weeks when the ration was limited to 2 oz., though whenever the ration was raised to 4 oz., the consumption figures remained definitely below the maximum. Since cheese has been rationed,¹ the weekly consumption figures of cheese per head shown by our method are also quite close to those representing the ordinary ration, with some margin for 'special' rations so long as the ordinary ration was not more than 2 oz. per head per week. With the ordinary ration increased to 3 oz., average consumption, as obtained by our method, has fluctuated between 2.9 oz. and 3 oz. per head per week. The number of customers arrived at by calculating the number of sugar rations sold will, therefore, be taken to represent, from September 1940, the number of total customers of the sample shops, implying that all other foods were sold to the same number of customers. Our sample is so large that the fact that people could make their purchases fortnightly or, in the case of cheese and jam, even monthly, cannot affect our weekly figures.

(2) *Analysis of Consumption*

Table I shows the weekly sales per customer. It will be seen that in September 1941, the total outlay per customer was only a half-penny more than in September 1940, which is as much as the increase in expenditure on tea, due to the purchase of a slightly larger quantity of a slightly better brand.² The total quantity purchased per head of all fat foods and also of two important protein foods—bacon and sausages—had increased over this period. The consumption of cheese had declined, owing to the introduction of rationing. The nutritional value of all groceries obtained per customer appears to have been about the same in September 1940 and September 1941.

The sample weeks in December 1940 and December 1941 present a rather similar picture. There was a decline in the outlay per customer, which is practically accounted for by the decline in the outlay on 'sundries,' probably owing to a decline in the supply of fancy foods. The expenditure of 26½d. on the three main food groups (fats, protein foods, and carbohydrate foods) in December 1941 bought more nutritional value than the nearly equal outlay on these foods in December 1940. This was due to the increase in the rations of fat and sugar, both of which have a high calorific value. It will be noticed that the increase in the total fat ration by 25 per cent. in December 1941, was accompanied by an increase in the purchases of fat foods amounting to about 19 per cent., comparing the quantities bought in September 1941 and December 1941, although only 8.9 oz. instead of the permitted 10 oz. were taken up.

¹ Since May 5th, 1941.

² It is possible that some of the customers buy their tea from shops specialising in tea and coffee, and that, therefore, the actual number of rations of tea sold by the shops of our sample is slightly below the number of sugar rations sold by them.

TABLE I
Weekly Sales per Customer

	Sept. 1940 Price per Unit* (pence)	Sept. 1940 (ounces)	Dec. 1940 (ounces)	March 1941 (ounces)	June 1941 (ounces)	Sept. 1941 (ounces)	Dec. 1941 (ounces)
Butter	18	3.1	2.0	3.2	3.3	2.0	2.0
Margarine	7½	2.6	4.3	3.3	3.3	4.2	4.4
Lard	9	0.6	0.7	0.5	0.1	1.2	2.5
Cooking Fat	7	0.6†	1.4†	0.8	1.1	0.1	—
I. Outlay on Fat Foods		5½d.	5½d.	6d.	6½d.	5½d.	6½d.
Bacon	16½	4.6	4.9	5.1	5.2	5.2	4.9
Cooked Meat†	16½	1.1	1.1	0.5	0.7	1.0	1.0
Sausages	10	1.2	2.4	1.8	1.7	2.0	2.6
Cheese	13½	4.2	3.9	3.2	1.2	2.9	3.0
Eggs	2½	0.7	1.1	1.0	1.5	0.6	0.6
II. Outlay on Protein Foods§		12¾d.	13½d.	13¼d.	13¼d.	13d.	13d.
Sugar	4½	8.0	8.0	8.0	8.0	8.0	11.2
Jam and Mar- malade¶	7¾	2.5	5.1	4.0	1.3	1.8	2.2
Cake†	8½	1.8	1.9	1.5	1.4	1.5	1.6
Biscuits†	10	1.6	1.7	1.7	1.7	1.5	1.6
Flour†	1½	7.2	6.4	7.8	6.7	6.5	6.9
III. Outlay on Carbo- hydrate Foods		6½d.	7½d.	7½d.	5½d.	6d.	7½d.
Tea	32½	1.5	1.6	1.7	1.6	1.6	1.7
IV. Outlay on Tea		3d.	3½d.	3½d.	3½d.	3½d.	3½d.
V. Outlay on Sundries		10½d.	14½d.	13d.	11d.	10½d.	11d.
Total Outlay	37½d.	37½d.	44½d.	43½d.	39½d.	38½d.	41½d.

* Rounded off to the nearest farthing. The prices are per lb., except for eggs, for which the price is shown per egg.

† Including dripping (unrationed).

‡ Quantities approximately.

§ Including outlay on tinned milk : Sept. 1940, 1d. ; Dec. 1940, ½d. ; March 1941, ½d. ; June 1941, ½d. ; Sept. 1941, ¾d. ; Dec. 1941, ½d.

¶ Treacle and syrup (both rationed with jam) are included under 'sundries.'

|| Number.

However, part of the additional purchases of fat probably reflects an exceptional demand for it before Christmas, for puddings and cakes, as is indicated by the rise in the purchases of fat foods from September 1940 to December 1940.

TABLE II
Rations of Groceries*

	Sept. 1940 (oz.)	Dec. 1940 (oz.)	March 1941 (oz.)	June 1941 (oz.)	Sept. 1941 (oz.)	Dec. 1941 (oz.)
Butter ...	4	2	4	4	2	2
Margarine ...	2	4	2	2	4	5
Cooking fat† ...	2	2	2	2	2	3
Bacon‡ ...	4	4	4	4	4	4
Cheese ...	—	—	—	1	3	3
Eggs ...	—	—	—	—	3	2
Sugar ...	8	8	8	8	8	12
Jam ...	—	—	16	8	16	16
Tea ...	2	2	2	2	2	2

* For eggs and jam monthly, for all other foods weekly.

† Including lard. Until Nov. 17th, 1941, the whole fat ration could be obtained in margarine; since then, the ration of cooking fat has to be taken in the form of cooking fat or lard, whichever is available.

‡ Bacon trimmings unrationed.

A comparison between the purchases of rationed foods and the maximum quantities allowed of them per head can be made by comparing the data in Table II with the corresponding data in Table I. Table II shows the rations for the same weeks in which the samples were taken.

TABLE III
Ministry of Labour Prices of Groceries.*

	Sept. 1940 per lb.	Dec. 1940 (pence)	March 1941 (pence)	June 1941 (pence)	Sept. 1941 (pence)	Dec. 1941 (pence)
Butter	18½	18½ (19)	19	19	19	19
Margarine:						
standard	lb. 9	9	9	9	9	9
special	lb. 5	5	5	5	5	5
Bacon	lb. 18½	18½	18½ (20½)	20½	20½	20½
Cheese	lb. 12½ (13)	13	13	13	13	13
Eggs	one 2½ (3½)	3½ (3½)	2½	2½ (2½-2½)†	2½-2½†	2½-2½†
Sugar	lb. 5	5 (4)	4	4	4	4
Flour	lb. 2	2	2	2	2	2½
Tea	lb. 30	30	30	30	30	30

* The figures in brackets show prices at the end of the month.

† Prices of small and large new laid eggs.

(3) Analysis of Prices

Tables III and IV are concerned with prices. For all those groceries for which prices are regularly published in the Ministry of Labour Gazette, these are given in Table III. In the first column of Table I, the average prices¹ of the main foods sold by the shops of our sample are quoted for September 1940. This column corresponds to the second column in Table IV, and also forms the basis

¹ Obtained by dividing the total value of sales of each food, or food group, by the total quantity sold.

of the indices shown in columns 3-7 of that Table. All the indices are, of course, derived from the precise price data, which are rounded off in Table I. Below the indices of the individual foods are shown the weighted indices of all the foods taken together. The weights used for this index, and also for the price indices of the food groups pictured in the Diagram, represent the relative outlay per customer on each food during the sample week of the month to which the index figure refers.¹ By means of these changing weights some account is taken of the effects of rationing and restricted supply of specific foods. It must, however, be stressed that this method does not minimise an upward trend of the index, through allowing for the substitution of absolutely cheaper for absolutely dearer foods of approximately the same nutritional value—e.g., margarine for butter. Rather the opposite is true, as for some of the cheaper foods, or food groups, the relative rise in price was greater, at least during certain periods, than for the dearer foods. In some cases, for instance, for margarine, this was caused by the increased preference of the consumers for better quality.

The index of grocery prices is compared, in the third and fourth row from the bottom of Table IV, with the Ministry of Labour indices of grocery prices and of the prices of all food. It will be seen that the price index obtained by us has an upward tendency, while both the Ministry of Labour indices only oscillate slightly round their basis. The upward trend of our index of grocery prices is the more surprising as from the figures in Table I it clearly appears that there was no noticeable change in the actual cost of living, as far as groceries are concerned, since September 1940. 'Cost of living,' however, means in this context 'cost of nutritional values.' There has been some reduction in the consumption of semi-luxury foods,² owing to the rationing not only of consumers but also of manufacturers, and replacement by cheaper foods. Such substitution does not necessarily imply a loss of nutritional value; sausages, for instance, may well replace fancy meat preparations. Indeed, the vitaminized margarine which is now sold everywhere, has probably a higher nutritional value than the preserved butter which represents the luxury tit-bit of the fat ration. Moreover, it should be observed that there are clear indications that, where possible, the consumers compensate themselves for the loss of enjoyment caused by the restricted supply of certain foods. This is disclosed unmistakably by the price indices of margarine and tea. The prices of both these commodities are strictly controlled and (except in the

¹ The formula is $\frac{\sum p_{m,n} q_{m,n}}{\sum P_u q_{m,n}}$, where the small letters refer to the current period and the capital letter to the base period. P_u stands for the price of the n th commodity in the base period, $p_{m,n}$ for the price of the n th commodity in the sample period m , and $q_{m,n}$ for the quantity of the n th commodity in the sample period m .

² Butter, jam, certain kinds of cooked meat.

TABLE IV
Indices of Prices and Sales.

	1 (12 months' pre-war average = 100)	2 Sept.	3 Dec.	4 March	5 June	6 Sept.	7 Dec.
		1940	1940	1941	1941	1941	1941
Butter	106	129	105	105	105	105	105
Margarine	98	123	103	109	109	113	115
Lard	104	155	99	100	99	100	100
Cooking Fat	100	143	100	102	100	100	99
Bacon	108	137	105	116	116	116	112
Cooked Meat	100	172	87	92	92	95	103
Sausages	102	145	92	110	103	103	103
Cheese	99	152	100	99	101	100	101
Eggs	122	195	89	106	106	104	98
Sugar	128	184	86	86	86	86	86
Jams and Marmalade	104	145	106	123	129	136	141
Cake	99	134	116	123	122	132	133
Biscuits	100	123	100	102	102	103	102
Flour	91	91	104	113	112	115	140
Tea	98	108	104	106	107	107	108
All Prices (weighted)	107	138	101	107	107	107	108
Min. of Labour Food Index	100	121	104	102	102	100	99
Min. of Labour Groceries only	—	—	102	98	97	97	98
Index of Customers	—*	—*	94	97	98	96	96
Index of Total Value of Sales	124	85	111	112	103	98	105

* Omitted because, previous to September 1940, the number of total customers is inflated by casual customers.

case of China tea, which in most of the shops of our sample is not sold at all) they have remained unchanged during the whole period of sixteen months. Our samples, however, show a steady rise in the average prices of both foods, which can be traced without any relapse from month to month. Thus, better brands of tea must have been consumed by increasing numbers, and also 'special' instead of 'standard' margarine. From September 1940 to December 1941, the average price of tea rose from 2s. 8½d. to 2s. 11¼d. per lb., and that of margarine from 7½d. to 8½d., in the shops of our sample.

Jam has actually become dearer during this period, and probably cake too; but the price movements of tea and margarine suggest that there may also have occurred within the groups of 'jam' and 'cake' a certain amount of substitution of higher for lower quality. Consumer's choice is, of course, limited under war-time conditions; yet, as far as possible, the shops try to supply to their customers those brands which are most acceptable to them. The other of the groceries which, besides jam and cake, has risen sharply in price, is flour.¹ This is partly due to the withdrawal of the subsidy on flour sold retail, but, as indicated by the gradual rise of the index, it seems also to reflect an increasing preference for self-raising instead of plain flour.

The movements of the prices of eggs, as shown in Tables III and IV, are very striking. If both price curves were plotted month by month, the Ministry of Labour prices would nearly give the looking-glass picture of the prices of our sample shops, the one curve tending upward when the other tends downward. The explanation of this phenomenon is that the Ministry of Labour uses for the calculation of its cost of living index the price of new laid eggs only, which is lower in summer than in winter, while, actually, most people have to be satisfied during the winter months with imported cooking eggs, which cost less than the home produced eggs offered in summer.

The two rows at the bottom of Table IV give the indices of customers and of total money turnover. By dividing the former into the latter an index of individual expenditure could be obtained, corresponding to the figures of total outlay per head in Table I.

(4) *Trend of Price Indices and Cost of Living*

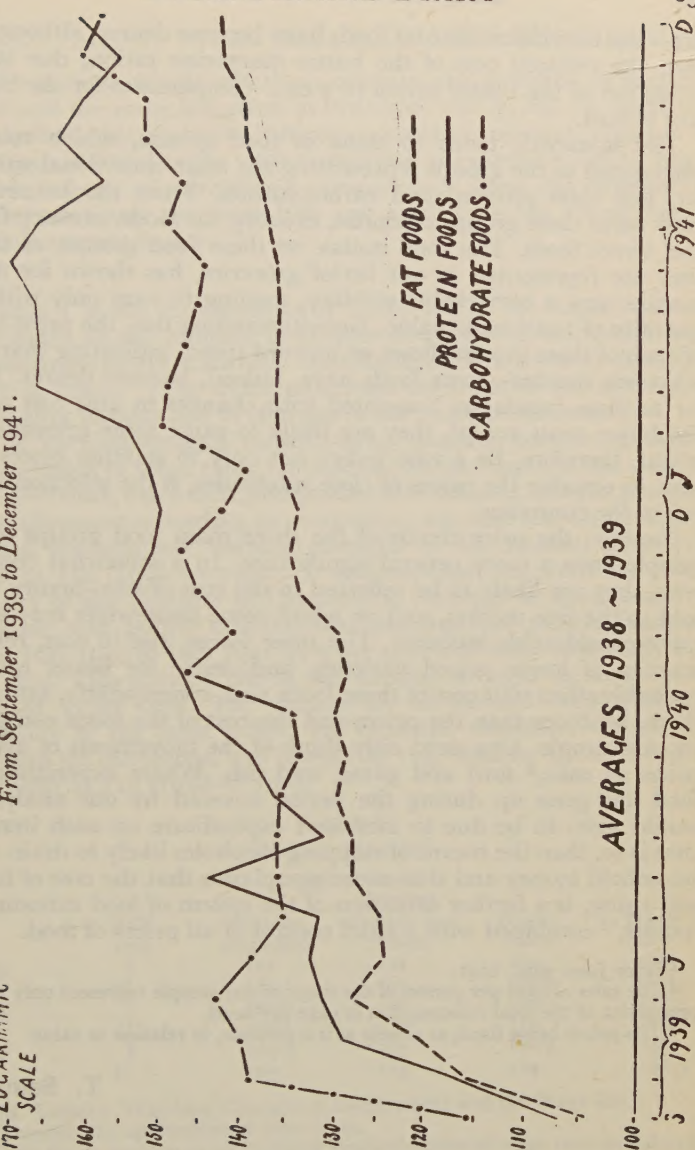
From the data yielded by our sample it appears that, under the abnormal conditions of war-time supply, the outlay on a fixed quantity of nutritional values gives a better indication of the actual cost of food than an index measuring changes in the prices of specific foods. In spite of this, such an index of prices may help us to understand the motives underlying the complaint that 'food is becoming dearer.'

There is, *first*, the psychological motive. Very few housewives with small incomes keep budgets, and hence, they cannot check their total expenditure. When their household money runs short—sometimes, perhaps, because of increased expenditure on non-food items—they try to recall which items cost more *per unit* now than a short while ago, and put the blame on that. That is, if the increase in cost is not the result of their own preference for better quality. Naturally, a housewife's first thought will turn to the cost of food. Probably no housewife will maintain that margarine has risen in price, in spite of the steady upward trend of its unit cost, but quite

¹ In our sample, 'flour' includes plain and self-raising flour, while the Ministry of Labour takes for its index the price of plain flour only.

MOVEMENT OF PRICES OF THREE, MAIN FOOD GROUPS

From September 1939 to December 1941.

170- LOGARITHMIC
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a number will say that cooking fat has done so, because lard, which cost 9d. a lb., has now generally to be accepted instead of the cooking fat mixture, which only cost 7d. And some of them will

draw the conclusion that fat foods have become dearer, although, in fact, the reduced cost of the butter-margarine ration, due to the reduction of the butter ration to 2 oz.,¹ compensates for the higher cost of lard.

The housewife tends to think of food groups, which roughly correspond to the groups representing the main nutritional values : fat, first class protein, and carbohydrates. From the housewife's view point these groups comprise, broadly, fat foods, savoury foods, and sweet foods. The total outlay on these food groups, as far as they are represented in our list of groceries, has shown for many months now a remarkable stability, tending to vary only with the quantity of nutritional value. Notwithstanding this, the price index of each of these groups shows an upward trend, indicating that—for whatever reasons—some foods have, indeed, become dearer. In so far as these trends are associated with changes in unit cost which the buyer must accept, they are likely to cause some grievance. It might, therefore, be a wise policy not only to stabilise prices but, also, to equalise the prices of close substitutes, if the selection is not left to the consumer.

Secondly: the price trends of the three main food groups of our sample have a more general significance. In a somewhat complex way, they are likely to be reflected in the cost of semi-luxury foods sold in the free market, and on which some housewives may spend quite considerable amounts. The three forces, rise in cost, relative scarcity of lower priced varieties, and desire for better quality, probably affect unit cost of these foods and, consequently, outlay on them, far more than the prices and the cost of the foods comprised by our sample. One need only think of the movements of average prices of cake,² fowl and game, and fish. Where expenditure on food has gone up during the period covered by our analysis, it would seem to be due to increased expenditure on such items. If that is so, then the means of stopping loopholes likely to drain away household money and thus cause complaints that the cost of food is still rising, is a further extension of the system of food rationing by 'points,'³ combined with a strict control of all prices of food.

¹ Since June 30th, 1941.

² The sales of cake per person of the shops of our sample represent only a small proportion of the total consumption of cake per head.

³ The points being fixed, as closely as it is possible, in relation to value.

T. SCHULZ.

EMPLOYMENT, WAGE BILL, AND CASH CIRCULATION

The purpose of this note is to continue the estimates of employment and the wage bill given in BULLETIN Vol. 3, No. 13, up to the first half of 1941 inclusive.¹ Next a connexion between changes in the wage bill and in the cash circulation is examined, which has a double interest of providing a certain check upon the estimates of employment and the wage bill, and explaining the strong rise in cash circulation in 1941.

I

Table I is the continuation of Table III in the article quoted. The index of the number of persons employed is calculated from the unemployment insurance contributions by a method described there in detail. (The index represents the trend of *insured* employment after elimination of changes in the scope of insurance.)

The 'earning strength' means average earnings per person divided by the index of wage rates; it depends on the length of the working day, overtime, night shift, and production² bonuses, and the structure of employment according to occupation, age and sex. In the article quoted we assumed 'earning strength' to be constant since July 1940 at 112 (1938 = 100). It follows, however, from the recent inquiry of the Ministry of Labour into earnings in manufacturing, building and public utilities, that earnings per person increased from July 1940 to July 1941 by 9 per cent and wage rates only by 7 per cent. This shows a rise in the 'earning strength' in these industries of 2 per cent. The change for all insured employment is probably of the same order. We estimate, therefore, the earning strength for the second half of 1941 at 114,³ and for the first half of that year at 113 (1938 = 100).

TABLE I
Index of Wage-Bill
1938 = 100

		Half year	Persons employed	Earning strength per person	Wage- rates	Wage- Bill
1939	...	I	101	101	101	103
		II	103.5	104	102.5	110.5
1940	...	I	102.5	109	109.5	122.5
		II	98.5	112	115	127
1941	...	I	104.5	113	120.5	142
		II	105	114	124	148.5

¹ M. Kalecki, 'War-time Changes of Employment and the Wage Bill.'

² Through the application of piece rates.

³ This figure multiplied by Professor Bowley's index of wage rates in July 1941, which was 123 (1938 = 100), gives 140 (1938 = 100) for the average earnings at that date. This is slightly lower than 142 given by the inquiry of the Ministry of Labour quoted above. The figures need not agree exactly because the latter relates only to manufacturing, building and public utilities.

We now multiply the index of persons employed by 'earning strength' and by Professor Bowley's index of wage rates, and so arrive at a rough estimate of the index of the wage-bill. (It should be noted that the wage-bill computed in this way does not cover strictly the aggregate earnings of manual labour because the insured employment excludes certain types of manual labour and includes lower grades of salary earners.)

Judging from the series of persons employed and the 'earning strength,' the rise in employment in man-hours between the first and second half of 1941 was only slight. For the first half of 1941 we estimated it in the article quoted at 113 (1938 = 100). We may thus say that (if this estimate is approximately correct) in the second half of 1941 the employment in man-hours was by about 15 per cent. higher than in 1938.

II

In the BULLETIN Vol. 2, Nos. 5 and 6, a formula relating the wage-bill to the circulation of coins and notes has been established.¹ It was shown, first, that there are *a priori* grounds for postulating the existence of a relation between the circulation of coins and notes and the cash paid income, and of a relation between the latter and the wage-bill. Secondly, a close double correlation between the variables in question for the period 1929-38 was obtained. The formula arrived at there may be written:

$$W = 2.0C_1 + 0.11C_2 - 55$$

W is here a combined index of the wage-bill (product of insured employment by average earnings) and unemployment benefit, weighted, of course, according to the actual payments in 1938, which is taken as basis.² C_1 is the coin circulation which was obtained from gross coin circulation as given by the Bank of England Statistical Summary, by deducting from it coins held by the banks calculated from the Annual Report of the Master of the Royal Mint. C_2 was obtained as a difference between the net coin and note circulation as given by the Bank of England Statistical Summary and C_1 .

It is interesting now to compare the war-time index of the wage-bill given in the first section of this note with the values obtained from the above formula. Before that, however, a short discussion of the applicability of this formula is necessary. First, as stated above, W in the formula is the combined index of the wage-bill and unemployment benefit and therefore in 1940 and 1941 it should be lower as compared with 1938 than the wage-bill estimated in the first section of this note; for unemployment and unemployment

¹ M. Kalecki, 'Wage Bill and Cash Circulation.'

² In the paper quoted the formula is different because there the wage-bill in 1929 has been taken as 100. The weight of unemployment benefit is obviously small but its proportionate changes are very violent.

benefit diminished considerably after 1938. For this factor it would, of course, be easy to introduce an adjustment so as to render both series comparable; there is, however, another factor which works in the opposite direction. The above formula is based on the relations between the coin and note circulation and the cash paid income, and between the latter and the wage-bill. Now this latter relation has been disturbed in war-time by considerable cash payments to soldiers and their dependents, so that the cash paid income increased more as compared with the wage bill than it would have done in peace-time. For this reason W calculated from our formula is 'too high' as compared with the index of the actual wage-bill, 1938 taken as 100. In this case an appropriate adjustment is difficult, but its order seems to be similar to that for unemployment benefit, but of course in the opposite direction. We may thus conclude that the series of wage-bill as calculated in the first section is roughly comparable for 1940 and 1941 with W obtained from our formula.

This comparison is made in Table II. C_1 has been calculated for 1940 and 1941 in the following way. The Bank of England Statistical Summary gives the gross coin circulation. The coins held by the banks bore in pre-war years a rather stable percentage—about 17 per cent—to the coins and notes held by the Clearing Banks. We thus estimate C_1 in 1940 and 1941 by deducting from the gross coin circulation 17 per cent. of the coins and notes held by the Clearing Banks (also published in the Bank of England Statistical Summary). C_2 is obtained as the difference between the net circulation of coins and notes as given by the Bank of England Statistical Summary and C_1 .¹

TABLE II					
			<i>Wage-Bill and Cash Circulation</i>		
			C_1	C_2	W
			Average in £mn.		1938 = 100
1940	...	Half year			Wage-Bill*
		I	63	453	121
1941	...	II	64	509	129
		I	69	525	141
		II	71	595	152

* The series given in Table I.

There is, as we see, a surprising agreement between W calculated from our formula and the estimates of the wage-bill obtained in the first section. If this is not a mere coincidence it provides a certain check for these estimates and also shows that the rapid rise of note circulation in 1941 may be accounted for simply by the increase in note balances corresponding to the rise in the wage-bill according to

¹ In the paper quoted (BULLETIN Vol. 2, No. 6) allowance has been made for the foreign hoarding of notes in 1936-38. In the present calculation it has been assumed that most of these notes returned to the U.K. in the first stage of the war (which seems likely) and therefore no deductions have been made from C_2 as calculated above.

the 'normal' relation.¹ It is, however, by no means excluded that certain particular factors, such as the black market, might have contributed to it in a minor degree: the excess of W over the wage-bill in the second half of 1941 is equivalent according to our formula to about £30 million of note circulation.

It is perhaps not out of place to point out that whatever are the reasons for the increase in note circulation it has no bearing upon whether the situation is 'inflationary' or not. If the rise in note circulation is 'normal,' i.e. due to the fact that cash balances increase with cash paid incomes, it is only a symptom of the rise in cash payments which may, but need not, be 'inflationary.' And clearly hoarding, i.e. accumulation of notes over the 'normal' level, has even less to do with 'inflation' because it is entirely independent of the effective demand exercised. It may perhaps be maintained that ample note balances encourage consumption, which is made more difficult if savings are held, say, in saving certificates and not in notes. But this factor seems to be of rather secondary importance. Most purchases are made out of current income, and in the case of an urgent need it is always possible to sell the saving certificates and so obtain the wherewithal for the purchase intended. True, withdrawals of National Saving Certificates have so far been very small, but this is just due to people's holding ample balances in notes and Savings Bank deposits.

M. KALECKI.

¹ Cf. 'Increasing Note Circulation,' BULLETIN, Vol. 3, No. 16, p. 376.

THE RETAIL TRADE REPORT

THE Board of Trade Retail Trade Committee was appointed on May 30th, 1941, to examine the present problem of the retail trade in goods other than food, having regard to the immediate needs of the conduct of the war and to the position after the war. At the end of the year it issued a first interim report, which was followed by the Location of Retail Business Order, under which new entry into the trade, or the selling of new lines of goods by any existing retailer, are controlled by the Board of Trade from January 1st, 1942. Under this Order, amalgamations of shops were to be allowed, and the joint shop could carry on business in any line which either partner had previously sold. The Committee has now published a second interim report containing an interesting and important analysis of the effects of the war on the trade up to date, a short survey of the prospect for the immediate future and a scheme of 'concentration' of the trade, designed to meet the difficulties which lie ahead, and submitted to the consideration of the President of the Board of Trade and the shopkeeping interests.

The account of the structure of the retail trade follows the usual lines and comes up against the well known snag that no one knows the number of retail shops in this country. (The estimates for the immediate pre-war years vary between 500,000 and 1,000,000 and the Committee has compromised on 750,000.) Some new figures are, however, furnished for the approximate value of retail sales of articles other than food and drink in 1939. Of total sales of £1,200 million, clothing and footwear contributed 38·8 per cent., furniture and household goods 18·8 per cent., tobacco 15 per cent., books etc. 10 per cent., and the remaining separate classes, drugs etc., sports goods, household stores, miscellaneous items, all less than 5 per cent. each. Since 1939 there have been certain violent impacts on the trade. Population movements have brought prosperity to such towns as Bath and slump conditions to evacuation areas, e.g. Dover and Hull. War-time controls have affected trade by:—

1. Reducing supplies
2. Regulation of standard qualities
3. Price control.

The Report analyses in detail the Limitation of Supplies Orders, the Clothing Rationing scheme and the Raw Material Controls as they affect different branches of retail distribution. Apart from tobacco, where retail turnover is about the same *volume* as pre-war, and drugs, the least hit trade is in clothing, where, for 1942, the volume of goods sold will be about 50 per cent. of pre-war years. For nearly all other lines the volume allowed varies from 50 per cent. downwards, and in some cases, e.g. aluminium hollow-ware, no new supplies at all will be obtainable. Furthermore, as the Report points out, the supply position is likely to deteriorate.

The switch to higher quality goods, with higher profit margins, is likely to become the less possible the more production is concentrated on utility goods.

Up to mid-1941 the Price of Goods Act allowed the spreading of overheads over the reduced turnover so that a retailer was guaranteed the same net profit *per unit* as was obtained in August 1939. A fundamental change, however, has been made likely by the Goods and Services (Price Control) Act under which maximum margins and/or maximum prices may be fixed. So far only utility clothing has been covered by the Act, but its scope will probably be extended. The Report states that the margins for utility clothing were calculated on a basis of full capacity of shops trading in such qualities of clothing. Clearly such margins will not cover expenses if turnover is cut to a half or less of full capacity. The Act, where applied, will hit especially those traders dealing with goods for which the mark-up was especially high.

These controls alone present a serious enough problem for

retailers, but the story does not end there. Labour has already been withdrawn from the trade on a considerable scale for the Armed Forces, or, in the case of women, for war work. Since August 1941 there has been almost complete de-reservation of men, and the National Service (No. 2) Act may drain considerably the age group 41-50 years. Women over 25 were reserved until the summer of 1941, but this protection is reduced by the Registration for Employment Order as applied to women and is almost nullified by the recent National Service Act. The Committee calculates that of a sample 1,000 persons (proprietors, managers, shop assistants etc.) engaged in the non-food retail trade, 500 already fall within the age groups in which there is compulsory recruitment. Another 60 women may be affected by future operation of the National Service Act, while many of the 70 boys between 14 and 18 and 140 girls between 14 and 19, usually occupied in retail distribution, may no longer be available because of reduced intake due to young people preferring more direct war work, losses to war industrial undertakings and voluntary recruitment for the Armed Forces or Civil Defence. Thus, allowing for deferment, physical disability and incomplete losses from the younger categories of men and women, the Report estimates that barely 500 of the normal 1,000 persons will remain. Furthermore, the best quality of worker is removed from the trade, at a time when A.R.P., rationing, price calculations and intermittent supplies all bring added work to the shopkeeper. Indeed, the 'Survey reveals a bleak prospect for shopkeeping in 1942.'

The Report goes on to restate in general terms the problem facing the trade. Quotas restrict production to one-half, one-third or less of pre-war trade. The full severity of the cuts has been cushioned by the running down of stocks, but stocks are not inexhaustible.¹ The contraction hits the small man worst for a variety of reasons;² already in Glasgow 25 per cent. of the small non-food shops have shut down since the war began. Furthermore the contraction is unequal in its incidence owing to population movements. The whole retail economy, under the combined impact of price control, reduced supplies, and withdrawal of labour which can only be replaced, if at all, by poorer substitutes, is deteriorating.

To meet the problem, therefore, the Committee recommends a broad division into larger businesses and small unit shops. For the larger businesses the scheme is as follows :—

(a) Those occupying a large central site, e.g., department stores,

¹ The Report lays great emphasis on the cushion afforded by stocks. The running down of stocks may help the retail trade, but it also makes the question of rationing more urgent than ever.

² Under the Limitation of Supplies Orders the wholesaler may sell to whom he likes provided he does not exceed his total quota. The Report states that this freedom has definitely favoured the large retailer.

can concentrate within their own site, perhaps releasing floor-space suitable for Government purposes.

(b) Those occupying a chain of smaller sites, e.g. multiple stores, can close down a proportion of their shops.

For the small, single unit shops there are, runs the Report, three alternative courses open to the shopkeeper :

(i) As he not infrequently puts it himself, he can decide to 'hang on no matter what happens.'

(ii) He can try to arrange a temporary 'marriage' with one or more fellow retailers, or

(iii) He can close down either for the war's duration or permanently. The Committee favours the second or third course, and condemns the first.

As the schemes, both for large and small shops, follow almost exactly the proposals put forward in this BULLETIN last September,¹ it is not necessary to examine them further in this note. The Retail Trade Committee comments on the difficulty of operation of the scheme, due partly to the natural resistance to 'marriage' by the partner who is to be temporarily absorbed. Indeed the temporary loss of identity is unpleasant, but the alternative is not retention of identity but *permanent* loss in most cases, due to bankruptcy. There are, however, certain difficulties which lie outside the power of retailers themselves to overcome.

First there is the problem of compensation, either from the Exchequer or from a levy on the section of the trade which remains open, to cover the standing charges and a small revenue for the closed shops (for it is clear that even a 'married' unit may not cover the standing expenses of two premises and leave sufficient profit for subsistence of two proprietors). The Government still stands firm against compensation from outside the trade, and the Report quotes the statement of the Prime Minister in September 1940 in the House of Commons: 'Unless public opinion and the judgment of the House were prepared to separate damage resulting from the fire of the enemy for all these other forms of war loss . . . we could not attempt to deal with this matter : otherwise we should be opening up a field to which there would be no bounds.' But this argument is true not only of compensation, but of almost every aspect of the war economy, conscription, raw material control, rationing, industrial control and so on. Each measure adopted at an early stage has gradually and inevitably expanded to cover every field of economic activity. It is true that compensation for the retail trade *alone* is not possible, but this does not imply that the general problem of compensation can be shelved indefinitely. The question is not only one of equity, but of achieving an efficient and elastic scheme of concentration ; the absence of a satisfactory arrangement for compensation makes this task extremely difficult.

¹ G. D. N. Worswick, 'Rational Retailing in War-Time.' Vol. 3, No. 13.

Be that as it may, there is an alternative of a levy on the retail trade itself. This idea was at first unfavourably received by the trade, but may yet be used. If it is used, then an important problem arises whether the levy be passed on to the consumer through a rise in price, or whether it must come out of profit. In the former case the net result is a form of that compensation from outside which is specifically opposed by the Government, for consumers would provide the compensation through paying higher prices. This question is important because other levies *have* been passed on to the consumer, e.g. coal.

A second limitation of the present proposals is one imposed by the terms of reference of the Committee itself. Retailing is the final stage of the larger process of distribution. The Report devotes little space to the wholesale side of distribution, except to remark that the Limitation of Supplies Orders leave the wholesaler free to dispose of his quota. But it is essential to ensure that, where 'marriages' of two or more shops do occur, the joint units can obtain adequate supplies and it seems unlikely that this can be achieved without also rationalising wholesale distribution. A development of regional wholesale distribution, designed to eliminate so far as possible unnecessary transport, and to allocate supplies according to population in the region, seems called for, and it is to be hoped that the Committee, in its further researches, will be allowed to extend its field to cover this problem.

The Report will now be considered and discussed by the various interests, who may or may not agree to try the schemes outlined. The Committee, appointed over eight months ago to deal with what was already an urgent problem, remarks rather curiously: 'Hitherto there has been inadequate realisation of the impending gravity of the situation. . . .' One is tempted to draw an analogy with a young physician called in to treat a sick patient. After some deliberation he recommends that the patient be isolated and kept quiet and this is done (the Location of Retail Business Order). He then diagnoses correctly and makes up his mind as to the necessary operation (the Second Interim Report). At this stage, however, he becomes less sure of himself and decides to consult specialists and relatives of the patient before performing the operation. The final stage should be, it is hoped, a short consultation and a successful operation, but there is an alternative if the deliberations are protracted. The patient may die.

G. D. N. WORSWICK.

DIARY

A FOREIGN OFFICE OF SUPPLY

The functions of the new Ministry of Production as outlined in the White Paper and in the statements of the Prime Minister and Lord Beaverbrook are to negotiate with the principal Allies, particularly the United States and Russia, to develop and allocate supplies, and to represent this country on the Joint Board established in Washington. The pooling of resources between the Allies, a co-ordinated expansion of munitions output and the joint allocation of scarce supplies is a task of supreme importance which should be in the hands of a Cabinet Minister. To keep the Foreign Office of Supply, as the new Minister has aptly termed it, free to shape inter-allied economic strategy and not to overburden it with administrative duties would seem to be good policy.¹

Output policy at home will be partly determined by the broad decisions agreed upon in the inter-allied boards and councils. Within this framework production will be the responsibility of the three Supply Ministries as hitherto, and logically manpower and labour questions will be dealt with by the Ministry of Labour, as Transport is by the Ministry of War Transport. There is to be no 'Home Office of Supply' corresponding to the new 'Foreign Office of Supply.'

This arrangement has renewed the controversy over a single Ministry of Munitions. Few new arguments were produced in the discussion, but the adjustment of the existing organisation to the new Ministry came under review. It may be argued that the Raw Material Controls, a common service to the three Supply Departments, should now be transferred to the Ministry of Production who is responsible for developing and allotting supplies in Great Britain and between the Allies. Such a reorganisation would give the Production Minister a direct grip on the output and use (priorities) of British war materials (including aluminium) and a chance of adjusting the organisation and policy of the much criticised 'Controls' to the joint needs of the Allies; while the Ministry of Supply would become to the Army what the Admiralty and Ministry of Aircraft Production are to the Navy and Air Force. To place the 'common service' under the Minister of Production would seem to be more logical and would vest him with greater power for carrying out his policy at home and abroad; against this has to be set the greater administrative burden, which will thus be heaped on a Minister responsible for inter-allied planning.

Division of opinion about a single Ministry of Munitions should not blind us to the agreement which exists with regard to policy. All the parties in the dispute agree that a master plan must be evolved not only for the munitions sector but for the economy as a whole,

¹ See Sir William Beveridge, *The Times*, February 15th, 1942.

either by a super-minister or better by an Economic Planning Executive, which in conjunction with the Departments, works out the plan and adjusts the organisation of state and industry, of consumption and production, of labour and management, without undue regard for past or future 'rights,' to meet the urgent need of greater and better output.¹

AUSTRALIA'S NEW PLAN

For the first time Australia is attempting to solve her financial problems by other than fiscal methods. The plan announced by Mr. Curtin involves a general price stop for goods and services, a wage stop (with certain qualifications), a limitation of profits of all enterprises to a maximum of 4 per cent. on employed capital, and fixing of all interest rates by the Commonwealth Bank. The details of the plan are not yet known. It appears that rationing is not part of it, and it remains therefore incomplete. Scarcities may be expected soon in the sphere of imported goods, e.g. clothing, tea, coffee. The effectiveness of price control will partly depend on rationing; moreover, it is particularly important for Australia to prevent a depletion of stocks of scarce (especially imported) goods which will inevitably occur in the absence of rationing. If the plan should be supplemented so as to avoid these shortcomings, the financial situation would be more easy to tackle than in most other countries, because Australia has large stocks of surplus products, and need not experience any scarcity of food. The only difficulty in this respect is in the sphere of transport, and it is therefore imperative to disperse the food stocks so that they are within easy reach of the consumers, possibly also to place stocks in areas which may be used for evacuation. Efforts to ensure a dispersion of essential stocks were already made a year ago, but the sum of £A5 millions devoted to this purpose by the Commonwealth government seems too small for a satisfactory solution of the problem.

A difficulty of the stabilisation plan is that it may weaken some of the incentives inherent in the price system. The stabilisation of wage rates will make it impossible to use wage increases in essential industries in order to shift labour from non-essential industry. It is true, however, that wage stabilisation is not intended to be rigid, and the possibility of reasonable adjustments is allowed for. The wage control is supplemented by a considerable degree of regimentation of labour; there are provisions corresponding to the Essential Work Order, and severe measures against absenteeism are to be applied. Allocation of labour is concentrated in the hands of the official labour exchanges, so that direct control of the labour market should prove effective.

The control of profits is in principle much more far-reaching than

¹ See Bulletin Vol. 4, No. 2 for a discussion of some aspects of 'production policy'.

in this country, because it extends to all enterprises, and fixes a uniform and low standard. It will require a high degree of supervision, interference with management, cost control, and fixing of low profit margins per unit of output in order to prevent inefficiency. The Trade Unions recently advanced a plea for nationalisation of the armaments industry. So far, the government-financed armaments plants have been administered by private firms.

The plan finally provides for the establishment of military control in any area whenever it is deemed necessary. It is not revealed how far preparations have been made to establish regions with decentralised control and administration, able to function independently in an emergency. This is of special importance for Australia, as population and industry are agglomerated in several areas which are separated from each other by more sparsely populated land.

PRICE CONTROL IN THE UNITED STATES

Although the idea of over-all price control was rejected a few months ago, Congress has now passed a Bill, giving Price Administrator Leon Henderson the power to fix prices and rents and also to prevent speculation, but no authority is granted for subsidising the cost of living. Price ceilings had previously been established only for certain commodities (mainly metals).

Agricultural interests have been granted considerable concessions, under the new Act, and the Secretary of Agriculture has been given the power to veto all rulings affecting farm prices. Ceilings for farm prices are fixed at 110 per cent. of parity, or about 15—20 per cent. above the present quotations. Parity is allowed to vary, moreover, with the general price level. Mr. Wickard, the Secretary of Agriculture, has, however, announced his intention of keeping farm prices in line.

Price control, by itself, is not, of course, an adequate weapon for dealing with the inflation danger. As *The Times* states, in a leading article commenting on the Bill (4th February, 1942), rationing 'is the only method of securing the fair distribution of goods in great demand and in short supply.' Further development along these lines is evidently anticipated, since the Price Administrator has been given the power to ration all retail commodities. For the present, however, it is unlikely that this power will be used on an extensive scale. The new bill, it may be said, does little more than recognise the existence of a problem.

The criticism has also been made that price control should be paralleled by wage control, but Mr. Leon Henderson has since recommended the National War Labour Board, which has power to assume jurisdiction in disputes, to rule against general substantial wage demands by Union Labour; he also recommends that increases which are necessary should be paid in Defence Bonds or Stamps—a suggestion which is hardly likely to find favour with the Unions.

SIMPLER DISTRIBUTION AND VITAMINS FOR CHILDREN

The gradual extension of the system of point rationing of food will give a large number of people more of the foods covered by it than they could obtain before the rationing. Now, neither money nor time will help to procure any of these items without foregoing some other 'points' food. Queues, in fact, would be abolished if chocolate, sweets, cake, and tobacco, were also included in the scheme. At present, these items still tend to represent the 'reward' for surplus time and surplus money, and, consequently, are an inducement to waste both.

From March 2nd, bread deliveries will be limited to three a week. This will help to save labour and petrol and, incidentally, may induce some more people to eat instead of white bread wholemeal bread, which goes stale less quickly. Indeed, the unwillingness of the Ministry of Food to enforce the consumption of wholemeal bread remains a conundrum which is puzzling many minds, as is testified by the continuous stream of letters to the daily press on that subject. The better keeping qualities of white flour can scarcely be the main reason for the Ministry's attitude, as, of course, a certain amount of white flour could be produced for long-term storage while flour of 85 per cent. extraction could be used for regular consumption and short-term storage. Some time ago it was suggested by Mr. E. Graham-Little, in a letter to *The Times*, that the composition of the Cereals Control Board should be made public, as it may throw some light on the Ministry's conduct of bread supplies.

The free distribution of cod liver oil to the holders of children's ration books—i.e. children up to the age of six—makes available an additional supply of the vitamins A and D to about $3\frac{1}{2}$ million children. Much as this is to be welcomed, it seems somewhat doubtful whether the distribution of the oil to the households is the best means of ensuring that the children actually take it. Some of it will probably be wasted. It might have been better to distribute it to the children directly in daily rations, through the nursery schools and kindergartens, and to hand it over to the mothers only in those cases where the children do not attend a school.

SOAP RATIONING

From February 9th, soap has been rationed. The public has been assured that there will be no shortage of soap and soap powders, and that the rationing is intended to bring about reasonable economies in the consumption of these cleaning materials (about 20 per cent.), to save shipping space. The amounts permitted per person will be quite sufficient for the needs of any ordinary household. For three types of families, however, the ration may prove insufficient, namely for those (1) with infants, (2) with invalids, and (3) with adults in specially 'dirty' occupations. It has been intimated

that the requirements for additional rations of soap are being considered,¹ and it seems likely that some adjustment will be made in the near future. If this has to be done by curtailing the ordinary ration, then the most just means would be to make some arrangement for the surrender of soap coupons by those who have all or part of their washing done by laundries. It remains to be seen whether the rationing of soap will cause a 'run' on shampoos and shaving soap. Should there appear any sign of this then these two items ought to be included under the scheme without delay.

THE CREAM OF INDUSTRY

The second report of the Committee on Skilled Men in the Services, published by the Government after considerable hesitation, is rather different in its conclusions from the first, preliminary, report which was published half a year ago. The preliminary report recommended that the services should be given about half of what they asked for in skilled men; the army, as if encouraged by this recommendation, in consequence revised its requirements, and asked for further allocations in the following period, for which originally it had not put down any claims. The present report led to the refutation of these claims. It is based on an examination of 356 cases of skilled men serving in the various services and reveals an astonishing degree of waste of skilled manpower, including highly skilled engineers of all kinds, representing, in the words of the Committee, the 'cream of industry.' The three services are blamed to a different degree; the navy very little, the air force only partly (though this conclusion is qualified implicitly by the admission that the Committee's inquiry is less complete for the air force than for the other services), and the army to a very high degree. The extent of waste in all services together can be seen from the fact that of 169 service men interviewed by the Committee at its offices, about *one half* were considered as cases of definitely wasted skill.

Along with other suggestions the Committee put forward two major recommendations. The first is that men, on being enlisted should not be posted to a particular army corps, but should be enlisted *into the army* and posted to a centre common to the army where they should remain, to be examined and sorted out, until their qualifications are sufficiently well tested to post them to a particular unit. The second major recommendation is that a Corps of Mechanical Engineers should be created in the army, so as to give these men their appropriate place and influence in the army, and to prevent them from being misused by men whose main interests and duties lie in other fields. The first of these highly constructive proposals has, in fact, been made already by the Select Committee on National Expenditure (22nd Report 1940-1).

¹ A small concession has already been made to miners. At collieries where there are pit-head baths they obtain soap free of the ration for use at each bath.

The present system, in which a recruit, after his medical examination, comes up to an interviewing officer who decides to which unit he is to be posted, may best be described in the words of the above Committee (*ibid.*, p. 5) : 'The interview becomes little more than the appearance of a recruit before an interviewing officer, and the answering of a few questions, yet the man's future in the Services does, to a large extent, depend upon it, since once he is posted to a unit, his transfer is a matter of considerable difficulty.'

The War Office's attitude to the main recommendations is so far non-committal. Their memorandum, attached to the Report, argues that 'such a radical change at this juncture might be very dangerous.' In view of the well-balanced judgment of two Committees of the highest standing it is difficult to believe that this will be the final answer.